

Message Text

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INFO AMEMBASSY BONN

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AMEMBASSY DUBLIN

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AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY HELSINKI

AMEMBASSY OSLO

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TAGS: ECIN, DA

SUBJ: PESSIMISTIC REPORTS ON DANISH ECONOMY

1. ON MAY 25 DANISH NEWSPAPERS DELIVERED UP A DOUBLE DISH
OF ALARMING NEWS ABOUT THE FUTURE OF DENMARK'S ECONOMY.

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2. THE FIRST "DISH" WAS A HUDSON INSTITUTE REPORT, COM-
MISSIONED BY THE GOVERNMENT-FINANCED SOCIAL SCIENCE RE-
SEARCH COUNCIL, WHICH TAKES A LOOK AT DENMARK FROM NOW
UNTIL 1990. EYE-CATCHING QUOTES INCLUDED A REMARK BY THE
HUDSON INSTITUTE'S EUROPEAN CHIEF THAT DENMARK DURING THE
PAST YEAR HAD ACTED MORE IRRESPONSIBLY THAN, FOR EXAMPLE,
ITALY.

3. THE SECOND "DISH" WAS THE LEAKING OF PARTS OF A REPORT BY DENMARK'S THREE "ECONOMIC WISEMEN," WHO CHAIR THE GOVERNMENT-FINANCED BUT AUTONOMOUS ECONOMIC COUNCIL. THE GIST OF THEIR MESSAGE WAS THAT DENMARK'S BALANCE OF PAYMENTS WAS NOT IMPROVING AND THAT THE TIME WAS NEARING WHEN CONDITIONS IMPOSED ON INTERNATIONAL BORROWING WOULD MEAN THAT DOMESTIC POLICIES WERE BEING DETERMINED FROM ABROAD. THE WISEMEN REPORTEDLY OFFERED THREE COURSES OF ACTION: TIGHTER INCOMES POLICY (BEST), CREEPING DEVALUATION OF THE KRONE (NEXT-BEST), AND STATE SUPPORT TO THE EXPORT SECTOR WHICH WOULD SUBSIDIZE THE DIFFERENCE BETWEEN DOMESTIC AND FOREIGN INTEREST RATES.

4. COMMENT:

A. THE MESSAGE OF THESE TWO REPORTS IS NOT NEW. THE GOVERNMENT'S INCOMES POLICY, INITIATED IN AUGUST 1976, WAS A RECOGNITION OF THE FACT THAT DENMARK CANNOT GO ON INDEFINITELY BORROWING FROM ABROAD TO COVER LARGE, PERSISTENT PAYMENTS IMBALANCES. WHAT THE NEW REPORTS SAY IS NOT THAT GOVERNMENT ACTIONS ARE IN THE WRONG DIRECTION BUT THAT THEY DO NOT GO FAR ENOUGH AND HAVE NOT HAD THE DESIRED EFFECT ON WAGE DEVELOPMENTS.

B. THE GOVERNMENT'S INITIAL REACTION HAS BEEN THAT IT WILL NOT BE PANICKED BY THESE REPORTS. NEVERTHELESS, TALK IS ALREADY STRONG THAT PARLIAMENT MAY UNCLASSIFIED

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WE WILL USE WHAT IS NORMALLY SUMMER RECESS TIME TO CONSIDER FURTHER ECONOMIC ACTION AND A SPECIAL SESSION OF THE FOLKETING TO DEAL WITH THESE PROBLEMS HAS BEEN CALLED FOR AUGUST.

C. NOT HAVING SEEN THE FULL TEXTS OF EITHER REPORT, WE ARE NOT ABLE TO ACCESS THEIR ACCURACY. (FOR EXAMPLE, A REPORTED STATEMENT OF THE WISEMEN THAT THE BALANCE-OF-PAYMENTS DEFICIT IN 1977 WILL BE AS HIGH AS 1976 SEEMS TO US PREMATURE.) THE REPORTS, HOWEVER, WILL STRENGTHEN GOVERNMENT CRITICS, SUCH AS THE LIBERAL PARTY, WHO HAVE LONG COMPLAINED THAT OFFICIAL MEASURES WERE INSUFFICIENT. IF THE SOCIAL DEMOCRATS BEGIN TO PERCEIVE THE SITUATION AS ONE THAT IS NOT IMPROVING DESPITE RECENT MEASURES, THESE REPORTS SHOULD HELP THEM IN CONVINCING THE PUBLIC, PARTICULARLY THE PARTY'S LABOR CONSTITUENCY, THAT MORE BELT-TIGHTENING IS NECESSARY.

D. NO MATTER WHAT THEIR EVENTUAL IMPACT IS,
THESE REPORTS HAVE INTERJECTED SOME EXCITEMENT INTO
AN ATMOSPHERE GROWN LETHARGIC AFTER THE APRIL LABOR-
CONTRACT SETTLEMENTS.
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